



# M e m o r a n d u m

To: Panel Members

From: Peter McNamee, Executive Director

Subject: CAREER LADDERS WAGE WAIVER LIMITS

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This memorandum is to propose revisions to the Employment Training Panel's (ETP) requirements for the funding of Career Ladders training projects. It addresses the Fiscal Year (FY) 2002-03 Strategic Plan objective to explore a limit to wage waivers for Career Ladders trainees. (A review of other Career Ladders criteria will be undertaken when the upcoming Career Ladders study, now being initiated through the request for proposal process, is completed next year.)

## **Background**

ETP's Strategic Plan for FY 2002-03 calls for the Panel to "Explore a limit for waivers to wage requirements for working poor and career ladder trainees at a maximum of 25 percent below the required ETP minimum wage." In October 2002, the Panel addressed wage waivers for working poor trainees in High Unemployment Areas (HUA), by approving revisions to its HUA policy, setting the limit at 25 percent below the ETP minimum for the wage earned before training, and requiring a 7 percent increase after completion of the retention period. This memorandum addresses wage waiver requirements for Career Ladders trainees.

The California Career Ladders to the 21<sup>st</sup> Century (Career Ladders) is a joint development effort between the Employment Development Department (EDD) and ETP, as described under Title 22, California Code of Regulations (22 CCR), Section 4408, providing "workers in low-wage jobs the skills necessary to advance to higher paying jobs in industries with the potential for career advancement opportunities." Pursuant to 22 CCR Section 4408 (b)(2), the Panel may waive the ETP minimum wage requirement for workers in a Career Ladders project. However, the contractor must demonstrate that the trainees will realize a wage increase, concurrent with increased responsibilities, within one year.

Since January 1, 2001, when this initiative was implemented, approximately \$2 million has been approved for 10 Career Ladders projects to train nearly 1,500 workers, at an average cost of \$1,370 per trainee (see Attachment 1). A review of these projects indicates:

- The primary occupations targeted have been Medical Assistant, Machine Operator, Banking/Lending Workers, Hotel Staff, Drivers, Certified Nurse Assistant (CNA) and Senior CNA, and Restaurant Workers.

- 41 percent of the trainees are in banking; 37 percent in nursing; 11 percent in machining; and 11 percent in the hotel and restaurant industries.
- 72 percent of trainees received waivers for wages below the ETP minimum.
- Trainees with wage waivers had wages that were 20 to 42 percent lower than the standard ETP minimum wages. Of the trainees in these projects, approximately:
  - 26 percent of the trainees earned \$7.50 per hour or less.
  - 31 percent of the trainees received wages that were more than 25 percent below the ETP minimum wage.
- The amount of wage increases for trainees after training and employment retention agreed to by contractors varied, ranging from 0–50 percent. However, for many, these wage increases were to occur one year after training and retention, given the 22 CCR Section 4408 requirement that such wage increases occur “within one year after the completion of each trainee’s training.”

## **Issues**

### **1) Wage Waiver Limit**

CCR Section 4408 (d) allows the Panel to waive the wage requirements for Career Ladders trainees below the ETP minimum wage, if contractors demonstrate the training will lead to wage increases a year after training. However, the regulation does not set a limit on the percentage of the wage that can be waived, nor does it specify if the wage waiver applies to: a) the wage prior to the start of training (i.e., the wage the trainee must earn to be eligible to begin training), or to the wage the trainee must earn after training and employment retention.

Given the high percentage of significant wage waivers for Career Ladders trainees there is a need to ensure that the granting of wage waivers does not dilute ETP's emphasis on training for high-wage jobs. Thus, a clear definition is needed to set a limit on the percentage of the wage that may be waived, to specify at what point the wage waiver is to be applied, and to state what wage increase is required.

Therefore, for clarity, staff recommends that Career Ladders trainees must: a) earn a wage of no less than 25 percent below the ETP minimum, prior to the start of training; and b) be provided at least a 10 percent increase to that wage, either after training and employment retention, or by the contract's term ending date.

### **2) Verifying Wage Increases**

Under the current regulation, trainees in Career Ladders projects have a promise, but not a guarantee, of increased wages and advancement to a better job. The regulation states the "Contractor shall demonstrate that each trainee will advance to a new job with higher earnings, in accordance with the progression of earnings provided by Contractor at the beginning of the Agreement, and increased responsibilities within one year after the completion of each trainee's training."

However, while the regulation requires the contractor to "demonstrate," prior to training, a career ladder increased wage for each trainee, in many cases this cannot be verified during the term of the Agreement. Often, this time frame occurs after the contract term end date, which is after the contractor has been reimbursed for trainees who have successfully completed training and the 90-day employment retention period. In such cases, wage increases can only be validated by program audits. As proposed in item 1), above, to ensure adequate monitoring of wage increases, staff recommends that the regulation be revised to require that a 10 percent wage increase for each trainee must occur either after completion of training and the employment retention period, or by the term end date of the contract.

As with wage waivers for HUA working poor trainees, the intent of the Strategic Plan objective is to set a limit on the percentage allowed for wage waivers for Career Ladders trainees, followed by certain wage increase after training, in order to reinforce ETP's emphasis on training for high wage jobs. For example, Career Ladders trainees, in counties where the ETP minimum wage is currently \$10.98 (the lowest required retrainee wage for 2003), may currently receive a waiver down to \$6.75 per hour (the State minimum wage), with no regulatory requirement for a specific wage increase after training. However, if the regulation is revised, as proposed, in this case, the waiver could not be for less than \$8.24 an hour prior to training, with a required wage of \$9.06, after training and employment retention, or by the contract's term end date.

#### **Proposed Revisions to 22 CCR Section 4408**

Given the above issues, the following revisions are proposed to 22 CCR Section 4408: California Career Ladders to the 21<sup>st</sup> Century Training (see Attachment 2):

- Establish a limit on wage waivers for Career Ladders trainees at a maximum of 25 percent below the required ETP minimum wage, prior to the start of training.
- Require that all Career Ladders trainees receiving such a waiver must be provided at least a 10 percent wage increase at the end of the training and retention period, or by the end of the contract term date.

#### **Proposed Action**

Staff recommends that the Panel approve the proposed revisions to 22 CCR Section 4408 and direct staff to implement the changes incorporated therein.

Attachments

Title 22  
Employment Training Panel  
Article 2

4408. California Career Ladders to the 21<sup>st</sup> Century Training.

- (a) To address the training needs in industries and occupations with demonstrated career advancement opportunities, the Panel may fund projects developed jointly with the Employment Development Department, under California Career Ladders to the 21<sup>st</sup> Century, to provide workers in low-wage jobs the skills necessary to advance to higher paying jobs in industries with the potential for career advancement opportunities. The industries in which trainees are employed must have previously demonstrated career paths with a clear career advancement structure, and the participating employer(s) must show a long-term commitment to training.
- (b) For purposes of Panel funding, projects developed under this category are subject to the provisions of the Panel's enabling legislation regarding job creation. These projects may be funded under the Panel's regular funding category, pursuant to the Panel's standard statutory and regulatory criteria, subject to the exceptions outlined below. Furthermore, each project shall be funded for no more than \$500,000.

(1) The Panel may waive the eligibility provision of §10201(c) of the Unemployment Insurance Code.

(2) The Panel may waive the ETP minimum wage requirements **up to 25 percent below the ETP minimum for retrainees**, as provided in UI Code Section 10201(f), for frontline workers in projects under this group. **The waiver applies to the wage earned prior to the commencement of training. The trainee's post-retention wage must exceed his/her wage before training by at least 10 percent. The 10 percent increase must occur either after completion of training and employment retention, or by the Agreement term end date. This increase cannot include any cost of living increases.**

(3) The Panel may exempt projects in this group from the limitations imposed on Panel funded literacy training under §4420, up to 100 percent of the total vocational skills training hours per trainee.

(4) The 90 day post-training employment retention period for trainees in this group may be completed with up to two participating eligible employers within 120 days, within the same discrete industry, if there is evidence of job security at the end of the retention period. The Panel may, upon a showing of good cause by the contractor, allow for the employment retention period to be completed with three employers, within the same discrete industry.

- (c) Projects being proposed under this category shall include information in the following areas:
- (1) the occupational category in which a career pattern of advancement exists that is recognized in the trade or industry;
  - (2) the progressive development of job skills associated with a defined set of work processes or tasks which are delivered sequentially in the course of training and employment;
  - (3) the progression of earnings and related benefits; and,
  - (4) identification of the trainees who will receive training in order for the panel to make a determination as to the qualifications of the individuals to be trained or retrained in the skills necessary for career advancement in the relevant industry. This determination shall include a review of the individual trainee's tenure in the position.
- (d) Contractor shall demonstrate that each trainee will advance to a new job with higher earnings, in accordance with the progression of earnings provided by Contractor at the beginning of the Agreement, and increased responsibilities, ~~within one year after the completion of each trainee's training. Time-in-grade increases that provide for regular salary increases for satisfactory performance within a job classification without increases in skills do not meet the criteria relative to the progression of earnings. Time-in-grade increases cannot be substituted for a progression of earnings as salary advancement occurs without the formal and concurrent development of skills and abilities. Similarly, cost of living allowances, shift differentials, and salary bonus plans awarded for increased production do not constitute a progression in earnings as specified in this section.~~
- (e) Each contractor must certify that it will provide a job equivalent for at least one person for each vacancy resulting from a trainee's career advancement.

Authority: Section 10205(m), Unemployment Insurance Code.

Reference: Sections 10200, 10201(c), (f), 10213, Unemployment Insurance Code.

## ETP Career Ladder Approved Projects On or After January 1, 2001

## Attachment 1

Contractor	Industry	Term Begin	Amount	Max to Place	Occupations	Range of Wages (before training)	Range of Wages (after retention)	Range of Wages (after 1 year)
THE PERMANENTE MEDICAL GROUP, INC.	Service	04-Jun-01	\$93,600	45	Medical Assistant	Unknown (<19.47)	19.47 - 20.48	Unknown
Rands Systems	Manufacturing	30-Jun-01	\$308,800	100	Machine Operator (Machine Tender, Off Bearer, Laborer, CNC Operator, Set up Operator, Welder, Grinder)	\$8.50	9.50 - 12.75	10.50 - 12.75
CALIFORNIA BANKERS ASSOCIATION	Finance	01-Nov-01	\$345,999	600	Bank Worker (Administrative, Operations, Lending, Manager, Supervisors)	\$8.38 - appr. \$11.00	From \$8.38 up to \$19.24	From \$8.38 up to \$19.24
RIM CORPORATION	Service	07-Dec-01	\$75,712	91	Hotel Worker (Room Attendant, House person, Driver, Maintenance, Server, Prep Cook)	29 @ 6.25 - 6.75 62 @ 10.58 - 11.75	7.00 - 11.75	7.00 - 11.75
Techniform Metal	Manufacturing	04-Feb-02	\$67,200	20	Machine Operator (Helper, Operator, Driver, Receiver, Tool Maker, Maintenance Worker)	7.00 - 9.42	7.00 - 10.56	7.21 - 10.56
Santa Monica College	Manufacturing (apparel)	18-Mar-02	\$96,255	45	Machine Operator (Helper, Cutter/Trimmer, Packager/Handpacker, Sewing Machine Operator, Technician/Mechanic, Pattern Maker, Design Maker)	\$7.50	\$7.50	9.37
Escondido Medical Investors Limited Partnership	Healthcare	08-Apr-02	\$392,600	245	CNA, Senior CNA	167 @ 7.33 - 7.53 78 @ 9.70 - 10.95	9.70 - 11.70	9.70 - 12.05
The Fairmont Hotel, San Jose	Service	08-Jul-02	\$75,258	37	Hotel Worker (Restaurant Servers, Bell Door Staffperson)	9.43 (7.11 + 2.32 ben)	12.16 - 12.66	12.23- 14.20
Beach House Inn	Service		\$57,734	30	Hotel Worker (Server, Shift Lead, Chef)	7.85 - 11.50	10.25 - 14.75	10.25 - 21.75
Santa Monica College	Healthcare		\$496,644	254	CNA, Senior CNA, Medical Assistant, Medical Records Information Technician	6.75 - 10.59	10.42 - 16.98	Unknown
<b>10 Contracts</b>			<b>\$2,009,802</b>	<b>1,467</b>				